

ANNUAL REPORT

1977

Halifax Developments Limited

DIRECTORY

BOARD OF DIRECTORS

H. P. Connor	Chairman of the Board, National Sea Products Limited
* A. R. Harrington	Business Executive
* D. J. Hennigar	Atlantic Regional Director, Burns Fry Limited
J. J. Jodrey	President, Minas Basin Pulp & Power Company Limited
J. H. Mowbray Jones	Director, Hermes Electronics Limited
L. A. Kitz, Q.C.	Senior Partner, Kitz, Matheson, Green & MacIsaac
M. H. D. McAlpine	President, Robert McAlpine Limited
J. T. MacQuarrie, Q.C.	Partner, Stewart, MacKeen & Covert
H. B. Rhude, Q.C.	Partner, Stewart, MacKeen & Covert
W. H. Richardson	President, Balcom-Chittick Limited
* D. R. Sobey	President, Halifax Development Limited
F. H. Sobey	Honorary Chairman of the Board, Sobeys Stores Limited

*Members of Audit Committee

OFFICERS

J. J. Jodrey	Chairman of the Board
D. R. Sobey	President
D. B. Hyndman	Executive Vice-President and Secretary
A. R. Harrington	Vice-President
L. A. Kitz, Q.C.	Vice-President
J. M. Doull	Vice-President, Operations

BANKER

The Bank of Nova Scotia

SOLICITORS

Kitz, Matheson, Green & MacIsaac;
Stewart, MacKeen & Covert

AUDITORS

H. R. Doane and Company

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company, Halifax, Montreal, Toronto, Calgary

LISTED

Toronto Stock Exchange

HEAD OFFICE

Barrington Tower, Scotia Square, Halifax, Nova Scotia

FINANCIAL HIGHLIGHTS

	1977	1976	1975	1974	1973
Gross Income	\$11,056,903	\$8,900,743	\$8,154,126	\$7,254,678	\$6,002,023
Income before Income Taxes and Extraordinary Income	\$ 447,748	\$ 528,524	\$ 527,706	\$ 307,367	\$ 139,950
Per Share	10¢	12¢	12¢	7¢	3¢
Extraordinary Income	—	—	—	—	\$ 249,868
Deferred Income Taxes	\$ 228,135	\$ 249,055	\$ 271,355	\$ 156,055	—
Net Income	\$ 219,613	\$ 279,469	\$ 256,351	\$ 151,312	\$ 389,818
Per Share	5¢	6¢	6¢	4¢	9¢
Cash Flow	\$ 1,166,405	\$1,121,101	\$1,033,331	\$ 745,062	\$ 635,345
Per Share	27¢	26¢	24¢	17¢	15¢
Average Shares Outstanding	4,319,705	4,319,705	4,319,705	4,299,552	4,128,135
Shareholders' Equity	\$ 8,868,805	\$8,735,586	\$8,542,511	\$8,372,554	\$7,970,242
Book Value Per Share	\$ 2.05	\$ 2.02	\$ 1.98	\$ 1.94	\$ 1.89

REPORT TO SHAREHOLDERS

Consolidated Net Income for the year ended December 31, 1977 amounted to \$219,613 (5¢ per share) compared to \$279,469 (6¢ per share) for the previous year. Cash flow from operations increased to \$1,166,405 from \$1,121,101 or 27¢ per share as compared to 26¢ per share.

The results for the year 1977 include an initial operating loss on Cogswell Tower, our newest office building. It is the normal practice of the real estate industry to capitalize operating losses over a period of up to two years. Your Directors have decided that in the interest of conservative reporting we absorb all these losses for 1977.

During the year your Company placed an \$8,000,000 long term mortgage on the Cogswell Tower and applied the proceeds to reduce bank borrowings.

The Halifax area suffers from an over supply of new office space as recent projects have exceeded current demand. Vacancies in office buildings are consequently higher than had been anticipated. There are signs, however, that this overly competitive environment is slowly improving. Because of its prime location, Scotia Square has been to some extent insulated from the more extreme effects of this market. Duke and Barrington Towers are close to full occupancy, while Cogswell Tower is more than 80% occupied. As was true with most residential towers in Metropolitan Halifax, our own apartment buildings experienced a high vacancy rate in the first half of 1977. Demand increased steadily throughout the year, until a position of almost full occupancy has been reached in early 1978.

On December 1, 1977, the Company assumed from its subsidiary, Halifax Parking Limited, the responsibility for operating the 1600 car parkade which forms part of Scotia Square. The parkade is now an operating division of the Company contributing directly to your Company's profits. The opening of the Halifax Metro Centre, a 10,000 seat multi-use sports and convention facility immediately adjacent to Scotia Square, will increase further the activity in the parkade, particularly in the evening hours. Improvements have been made, including the construction of a high speed exit ramp and a new convenient pedestrian entrance, giving easy access for Metro Centre patrons.

The shopping mall, which is the focal point of Scotia Square, continues its successful growth. Activity has been increased further by the opening of new office towers in the immediate area and more recently by the opening of the Metro Centre. A fast food area of 10,000 square feet, to be known as "Ports of Call", is now under construction on the lower level of the north mall. This addition should not only add to rental revenues but will provide a greater variety of food service to the customers of Scotia Square.

The final stage of the Scotia Square project is a third residential tower to be built adjacent to the existing apartment towers. Plans are now being prepared and subject to economic viability and municipal approvals, a construction start in 1979 is anticipated.

In September 1977, Durham Leaseholds Limited, our joint venture with Oxford Development Group Limited, opened the Bank of Commerce Tower. Due to the highly competitive rental market previously mentioned, occupancy levels have been lower than originally projected. Nevertheless, the advantageous position and the proximity of the tower to Scotia Square should result in it being occupied before other less strategically located buildings.

Durham Leaseholds Limited has recently announced plans for the construction of Barrington Place adjacent to Scotia Square and the Bank of Commerce Tower. The three structures will be joined by enclosed walkways which will result in increased pedestrian traffic throughout Scotia Square. Barrington Place will consist of retail space at Barrington and Granville Street levels and three upper floors of hotel space leased to Delta Hotels Limited. The project, calls for the restoration of the historic facades on Granville Street, to achieve a blending of time and structures from restored historic properties into contemporary Scotia Square.

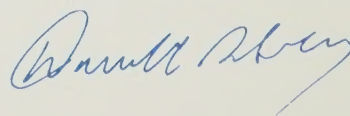
The developments being constructed by Durham Leaseholds Limited will greatly enhance the Company's original investment in Scotia Square. These developments together with the recently announced Metro Centre Phase II consisting of a 50,000 square foot "Great Hall" convention facility will further increase activity in the area.

On behalf of the Board of Directors, we express our sincere thanks to the employees for their continued support during the past year.

Chairman



President



CONSOLIDATED STATEMENT OF INCOME

December 31

1977

1976

Gross income	\$11,056,903	\$8,900,743
Operating expenses	6,618,622	5,321,240
	4,438,281	3,579,503
Interest on long-term debt	3,344,705	2,511,317
	1,093,576	1,068,186
Depreciation	626,158	500,012
Amortization	92,499	92,565
	718,657	592,577
	374,919	475,609
Investment income	72,829	52,915
	447,748	528,524
Income before income taxes	228,135	249,055
Deferred income taxes		
Net income	\$ 219,613	\$ 279,469
Earnings per share (Note 7)	\$.05	\$.06

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

December 31

1977

1976

Retained earnings, beginning of year	\$ 784,093	\$591,018
Net income	219,613	279,469
	1,003,706	870,487
Dividends	86,394	86,394
Retained earnings, end of year	\$ 917,312	\$784,093

December 31

1976

Receivables	\$ 492,849	\$ 856,855
Prepaid expenses	195,787	166,273
Performance deposits	150,000	151,000
Investment in corporate joint venture (Note 2)	776,724	453,145
Land, buildings and equipment (Note 3)	46,415,368	46,664,493
Other (Note 4)	753,881	846,380

\$49,138,146

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The accompanying notes form part of this statement.

Balance Sheet

LIABILITIES	December 31	
	1977	1976
Bank indebtedness (Note 5)	\$ 881,695	\$ 1,554,681
Payables and accruals	1,040,003	1,103,781
Income debenture, due September 30, 1977		2,000,000
Long-term debt (Note 6)	37,089,506	35,067,633
Deferred income taxes	904,600	676,465
	39,915,804	40,402,560
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)		
Authorized — 5,000,000 common shares without nominal value		
Issued and outstanding — 4,319,705 common shares	7,951,493	7,951,493
Retained earnings	917,312	784,093
	8,868,805	8,735,586
	\$48,784,609	\$49,138,146

AUDITORS' REPORT

To the Shareholders of Halifax Developments Limited

We have examined the consolidated balance sheet of Halifax Developments Limited as at December 31, 1977 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

Halifax, Nova Scotia
February 13, 1978

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	December 31	
	1977	1976
Source		
Operations		
Net income	\$ 219,613	\$ 279,469
Depreciation	626,158	500,012
Amortization	92,499	92,565
Deferred income taxes	228,135	249,055
Cash flow from operations	1,166,405	1,121,101
Proceeds from mortgage loan	8,000,000	
Increase in current bank indebtedness		1,190,000
Reduction in investment in corporate joint venture		150,000
Increase in long-term bank loans		32,000
Net change in other assets and liabilities	271,714	(483,561)
	9,438,119	2,009,540
Application		
Increase in investment in corporate joint venture	323,579	41,665
Land, buildings and equipment	377,033	1,267,582
Deferred charges		9,342
Repayment of long-term debt	648,802	477,204
Income debenture	2,000,000	
Decrease in long-term bank loans	5,329,325	53,811
Decrease in current bank loans	971,596	
Dividends	86,394	86,394
	9,736,729	1,935,998
Increase (decrease) in cash	\$ (298,610)	\$ 73,542
Cash flow from operations per share (Note 7)	\$.27	\$.26

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

- (a) The company's accounting policies and its standards of disclosure are in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.
- (b) The accounts of the subsidiary company, Halifax Parking Limited have been included in these consolidated financial statements. Durham Leaseholds Limited, a corporate joint venture is accounted for herein using the equity method of accounting.
- (c) Depreciation on buildings is recorded on a 5%, forty year sinking fund basis. The depreciation charge increases annually and consists of a fixed annual sum together with an amount equivalent to interest compounded at the rate of 5% so as to fully depreciate buildings over a forty year period. The depreciation charged on buildings in the fortieth year will be approximately seven times the amount charged in the first year.
- (d) The company follows the tax allocation basis of accounting. Accordingly, full provision is made for income taxes that are deferred primarily as a result of the timing difference between the depreciation provided for accounting purposes and that claimed for income tax purposes.

2. Investment in corporate joint venture

The company's 50% interest in the corporate joint venture, Durham Leaseholds Limited is accounted for on the equity basis and is made up as follows:

	1977	1976
Shares, at cost	\$ 150	\$ 150
Share of earnings, equity basis	184,074	160,495
10% capital notes, at cost	112,500	112,500
Demand notes, at cost	480,000	180,000
	\$776,724	\$453,145

A property owned by Durham Leaseholds Limited was expropriated by the Province of Nova Scotia on December 19, 1975. The compensation to be received for the property has not been determined.

The shares and the 10% capital notes have been lodged with a trustee as security for the bondholders.

3. Land, buildings and equipment

	1977	1976
Buildings and equipment	\$47,830,646	\$37,945,057
Less accumulated depreciation	3,136,538	2,511,736
	44,694,108	35,433,321
Land	1,721,260	1,721,260
Construction in progress		9,509,912
	\$46,415,368	\$46,664,493

The company is constructing and operating a real estate complex known as "Scotia Square" on approximately 19 acres of land in the City of Halifax. The complex is comprised of shopping malls, offices, apartments, parkades and a hotel.

4. Other

The other assets of the company consist of the following:

	1977	1976
Unamortized bond discount and expenses (a)	\$558,469	\$601,340
Deferred charges		38,133
Excess of purchase cost of subsidiary over net book value of assets acquired (b)	195,412	206,907
	\$753,881	\$846,380

- (a) Amortization of the bond discount and expenses is recorded using the straight-line basis over the term of the respective bond issue.
- (b) The acquisition of the subsidiary, Halifax Parking Limited in 1974 has been accounted for by the purchase method. The purchase cost in excess of the net book value of assets acquired was \$229,897. This amount is being charged against operations using the straight-line method over a period of 20 years. Accumulated amortization to December 31, 1977 is \$34,485.

5. Bank indebtedness

The bank indebtedness is secured by a general assignment of book debts.

6. Long-term debt

	1977	1976
8% First Mortgage Bonds, First Series, due April 1, 1996 repayable in level monthly installments of \$91,585 principal and interest. Additional interest calculated at 4 $\frac{1}{4}$ % of gross annual rentals from specifically mortgaged premises, is payable at not less than \$100,000 nor more than \$150,000 in any one fiscal year of the company.	\$10,606,457	\$10,859,839
9 $\frac{1}{8}$ % First Mortgage Bonds, Second Series, due October 1, 1988 repayable in level monthly installments of \$52,095 principal and interest.	6,278,631	6,338,506
8 $\frac{1}{4}$ % First Mortgage loan repayable in level monthly installments of \$17,533 principal and interest to July 1, 1993.	1,852,865	1,910,399
9% First Mortgage loan repayable in level monthly installments of \$22,436 principal and interest to April 1, 2000.	2,608,564	2,645,546
10 $\frac{1}{2}$ % First Mortgage loan repayable in level monthly installments of \$16,118 principal and interest to October 20, 2005.	1,779,669	1,789,614
10 $\frac{1}{4}$ % First Mortgage loan repayable in level monthly installments of \$72,908 principal and interest to June 30, 1992.	7,963,320	
8% General Mortgage Sinking Fund Bonds, Series A, due August 1, 1993.	2,700,000	2,760,000
8% General Mortgage Sinking Fund Bonds, Series B, due December 31, 1994.	940,000	955,000
9 $\frac{3}{4}$ % General Mortgage Sinking Fund Bonds, Series C, due April 1, 1999. Sinking fund payments commence in 1979.	2,000,000	2,000,000
Convertible subordinated debentures, Series D, due August 16, 1993. Debentures may be converted into common shares of the company on the basis of 400 shares for every \$1,000 principal up to May 16, 1978, and 285 shares for every \$1,000 principal after May 16, 1978 to August 16, 1993.	360,000	360,000
Bank loan; principal repayments of \$52,000 per year		119,404
Interim bank loans		5,329,325
	\$37,089,506	\$35,067,633

Estimated principal and sinking fund payments required during the next five years are as follows:

1978	\$607,000
1979	\$708,000
1980	\$768,000
1981	\$827,000
1982	\$887,000

7. Capital stock

144,000 common shares have been reserved to provide for conversion of the convertible subordinated debentures.

Fully diluted net income per share for the year is \$.05 and cash flow per share on a fully diluted basis is \$.26.

8. Contingent liabilities

The company has guaranteed a bank loan of Durham Leaseholds Limited to the extent of \$750,000.

... OUR NEW NEIGHBOURS

